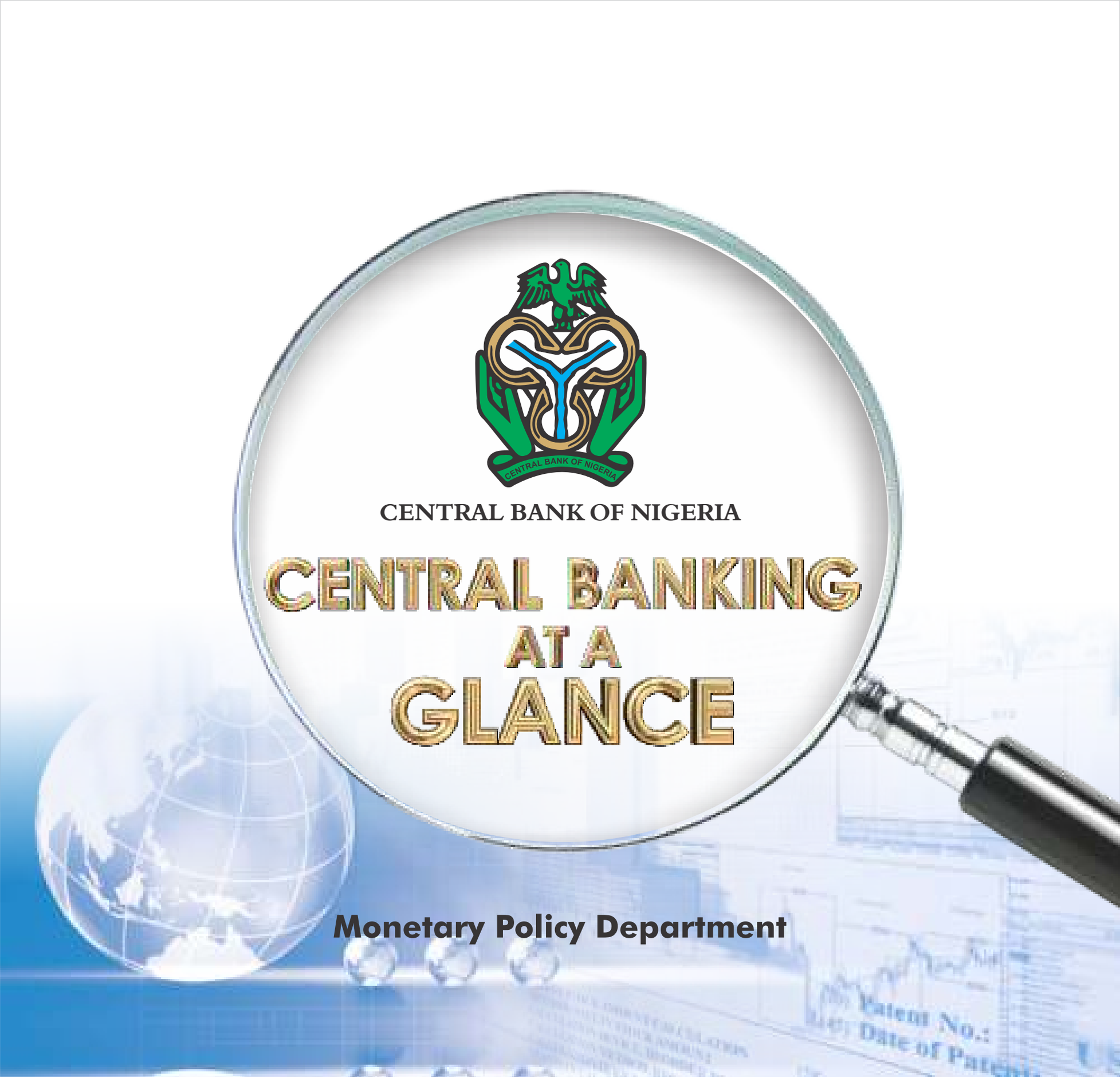

CENTRAL BANK OF NIGERIA

CENTRAL BANKING AT A GLANCE

Monetary Policy Department

Central Banking at a Glance

"Central Banking At a Glance" is a financial and monetary policy literacy enlightenment publication of the Central Bank of Nigeria. It explains basic concepts of monetary policy and central banking in a simple, graphic and reader friendly format.

The publication would be highly beneficial to public policy makers and analysts, businessmen, public sector administrators, professionals, students, and others, who desire to understand the rudiments of monetary policy and central banking.

The book is readily available in libraries across the nation and updated periodically. Enjoy the experience of a well-researched and packaged literacy material!

Dr(Mrs) Sarah O. Alade
DG Economic Policy Directorate
Central Bank of Nigeria

Acknowledgements

*The **"At a Glance"** series seeks to enhance the communication of monetary policy and enrich the Bank's financial literacy initiative. The Department is grateful for the wealth of contribution, time and efforts committed towards the preparation of this book. Foremost, our in-depth gratitude goes to the Management of the Central Bank of Nigeria, for the invaluable support and approval, from the concept stage of the book to the final print. We are grateful and acknowledge the DG, Economic Policy Directorate, Dr. Mrs. Sarah O. Alade whose effective leadership, mentorship and inspiration is instrumental in the production of this book.*

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We regret and take responsibility for any errors observed in the book

Moses k. Tule
Director, Monetary Policy
Central Bank of Nigeria
March 2017

Disclaimer:

We acknowledge that the images used in this series are not our original creation. They are adapted from several internet sources at ***www.google.com***

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The Central Bank of Nigeria Act

The Central Bank of Nigeria derives its legal framework and mandate from the various enabling acts and their amendments. The CBN has had three major Acts: the CBN Act of 1958; the CBN Act 1991; and the CBN Act of 2007.

The first legislation for the establishment of the CBN was sent to the House of Representatives in March 1958 and the CBN Act was passed on 9th April, 1958 and became effective on 1st July, 1959

LAW

Establishment of The Central Bank of Nigeria

The CBN Act, 1958 established the CBN and it commenced operations on July 1st 1959. The Central Bank Act, 1958 (As Amended) as well as The Banking Act 1969 (as amended) established the legal framework within which the CBN operated and regulated Nigeria's banking industry. The CBN Act No. 24 of 1991, and the Banks and Other Financial Institutions Act No. 25 of 1991, which revoked the CBN Act, 1958, Banking Act 1969, CBN Act, 1967 and the Finance Act 1969, among others, were subsequently enacted to extend and strengthen the powers of the CBN to oversee new financial institutions and carry out its mandate concerning the regulation and supervision of the banking sub-sector.

Mandates of CBN
Issuance of Legal Tender Price Stability

The objective of price stability was clearly included in the CBN 2007 Act as a mandate that is core to the Bank. This was informed by the fact that every central bank's core function is the maintenance of price stability. The other mandates of the CBN had been articulated in the previous CBN Acts, however, it is only the 2007 Act that clearly states the promotion of price stability as a key mandate of the CBN. It is important to keep a close watch on government spending in order to maintain and achieve price stability, since huge budget deficits tend to persist and often lead to volatility in prices which, in turn, impacts the standard of living negatively.

Mandates of CBN
Issuance of Legal Tender Currency

The CBN 2007 Act outlines four functions to be performed by the Bank. The first is the issuance of legal tender currency in Nigeria. This means that the CBN is mandated to determine the nature of the monetary instruments for the settlement of debts in Nigeria. In view of the key importance of the legal tender currency and enhancing of a smooth functioning of the economy, the function is traditionally the responsibility of central banks all over the world. The CBN has the sole authority for issuing Nigerian currency notes and coins, including their denominations, formats, design, standard weights and composition.

500
20
TWENTY
20

Mandates of CBN
Maintain External Reserves

The second function is the maintenance of external reserves to safeguard the international value of the domestic currency. The Bank has to maintain an appropriate level of reserves that would minimize high volatility. The maintenance of external reserves entail sound management and investment to ensure security, liquidity and good return on investment. Maintaining an adequate level of external reserves ensures the stability of the value of the domestic currency.

Mandates of CBN
Promote Monetary and Financial Stability

The third is the promotion of monetary stability and a sound financial system in Nigeria. The CBN was mandated to formulate and implement monetary policy with the aim of achieving monetary stability, as well as ensuring stable domestic and foreign values for the national currency. In addition, the CBN is to amongst other, thus, provide clearing facilities for banks and develop the payments system. The Act empowers the Bank to supervise and regulate the operations of all banks operating in Nigeria.

STABILITY
INCLUSION

Mandates of CBN
Banker and Financial Adviser to FG

The fourth is to act as banker and financial adviser to the Federal Government of Nigeria. It keeps the accounts of the ministries, departments and agencies of the Federal Government. The Bank maintains deposits for the Federal Government and its agencies and makes payments on their behalf. The Bank is also entrusted with the management of government domestic debt and foreign exchange transactions.

don't
get
penalized

The CBN Act 1991

The CBN Act No. 24, 1991 repealed the CBN Act, 1958 and all its amendments. The 1991 CBN Act was aimed at granting more autonomy to the Bank. The 1991 Act explicitly provided that the Governor of the Bank would thereafter report directly to the Office of the President, instead of through the Federal Ministry of Finance. The 1991 Act streamlined the formulation and implementation of monetary policy. It also strengthened the capacity of the Bank to monitor the activities of operators in the financial system.

Nigerian banks

The BOFIA Act

The Banks and Other Financial Institutions Act (BOFIA), was enacted in 1991 alongside the CBN Act No. 24. BOFIA replaced the Banking Act, 1969 as amended and empowered the CBN to grant and revoke banking licenses when necessary without any external interference. Subsequent amendments to the Act further strengthened the CBN in promoting a sound financial system in Nigeria. Specifically, the BOFI (Amendments) Act Nos. 4 And 38 of 1997 and 1998, respectively, prescribed sanctions which the Bank could impose for infractions of the CBN and BOFI Acts and any regulations made pursuant thereto. The Act also extended the supervisory powers of the Bank to include other financial institutions and specialized banks.

SOLVENCY
INTEGRITY
STABILITY
MONITOR
GLOBALIZED
PROVIDERS
CASE
EFFICIENT
TRADING
CRIMINAL
SUPERVISION
FINANCIAL
REGULATION
PROTECTION
BANKS
RELIANCE
PARTICIPANTS
BANKING
FRICTIONLESS
ABDICATED
REGULATOR
INDUSTRY
INVESTMENT
BANKING
TRANSPOSER
INSTITUTION
RATING
COMPANIES
PUBLISH
SERVICES
FINANCIAL
CRIME
DRAMATICALLY
CARTEL
ACTS
SYSTEM
FINANCIERS
CREDIT
REGULATORY
LISTING
ACTIVITIES
AUTHORITY
GOVERNMENTS
STRUCTURE
EXCHANGES
UNREGULATED
LAUNDERING
STOCK
CONFIDENCE
LISTED
MANAGEMENT
COMMITTEES
SECURITIES
JURISDICTIONS
AGENCIES

The CBN Act of 2007

The Central Bank of Nigeria Act, 2007 was signed into law in June, 2007. The CBN Act, 2007 makes more provisions for the use of discretion by the Bank. However, the Bank must ensure adequate consultation with, and effective cooperation of, key stakeholders, particularly the government and the National Assembly, in order to sustain the Bank's instrument autonomy.

CBN Act 2007-
Operational Autonomy

The operational autonomy of the Bank was clearly stated in Section 1(3) of the Act which states "In order to facilitate the achievement of its mandate under this Act and the Banks and Other Financial Institutions Act, and in line with the objective of promoting stability and continuity in economic management, the Bank shall be an independent body in the discharge of its functions." This is in consonance with international best practices and will not only engender stakeholder confidence, but facilitate the achievement of its mandate.

CBN Act 2007 -
Monetary Policy Committee

The MPC was established by the CBN Act 2007 to expedite the achievement of the Bank's objective of price stability. The MPC is charged with the responsibility for monetary policy decisions. The MPC was formally constituted with internal and external membership. The members of the Committee are the Governor, four Deputy Governors, two non-executive members of the Board, three members chosen by the President, and two members chosen by the Governor. The MPC is authorized by law to meet at least four times a year.

CBN ACT 2007 -
Abuse of Naira

The abuse of the naira is criminalized with appropriate sanctions. The objective of this section is to promote confidence in the usage of the Naira notes and coins as a medium of exchange. It is also aimed at increasing their active life and prevent the public from refusing to accept the Naira. The criminalized abuses of the naira include selling and buying of Naira notes and coins and scattering the Naira at social functions.

CBN ACT 2007 – Deficit Financing

Deficit financing is limited to 5 per cent of the previous year's actual revenue. This provision on reducing the limit of the CBN deficit financing is designed to promote price stability as it is a major source of inflation. It is also in consonance with the relevant convergence criterion adopted under the Agreement of the West African Monetary Zone to which Nigeria is signatory.

DEBT

CBN ACT 2007-
Lender of Last Resort

The role of the CBN as the 'lender of last resort' is stated in Section 42 (2) of the CBN 2007 Act to promote a sound financial system. The Act provides legal clarity to the discount window operations of the Bank and confers authority on the Bank to assist DMBs when they are in distress or facing temporary liquidity problems.

WIDER ECONOMY
BANKING CRISIS
CENTRAL BANK

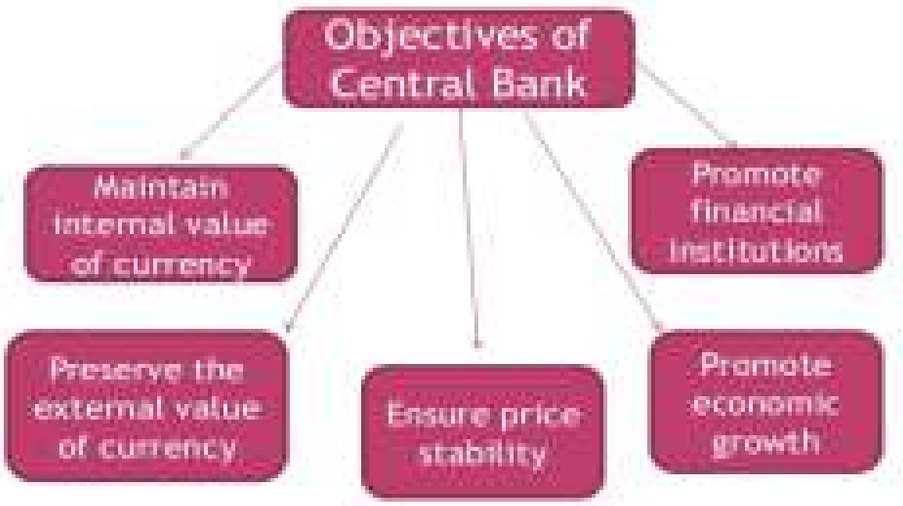
Conduct of Monetary Policy

The Central Bank is a non-profit public institution responsible for overseeing the monetary system of a nation (or group of nations, in the case of a regional central bank)

Generally, the central bank is tasked with a wide range of responsibilities, which includes formulating and implementing monetary policy for maintaining price stability — low inflation, maintaining financial system stability, issuing legal tender currency and acting as a lender of last resort, amongst others

The primary function of a central bank is to control the nation's money supply (monetary policy), through managing interest rates and setting the reserve requirement.

OBJECTIVES OF CENTRAL BANK


Objectives of Central Bank
Maintain internal value of currency
Promote financial institutions
Preserve the external value of currency
Ensure price stability
Promote economic growth

Monetary Policy

Monetary Policy refers to specific actions taken by a central bank to control and regulate the cost, volume, direction and availability of credit and money in an economy to achieve some desired macroeconomic policy objectives

Monetary policy is formulated with some assumptions about the path (and/or strength of the path) through which policy impacts the economy.

MONETARY POLICY
Promoting A Healthy Economy
$
%
DECISIONS
ACTIONS

INFLATION

Types of Monetary Policy:
Expansionary and Contractionary

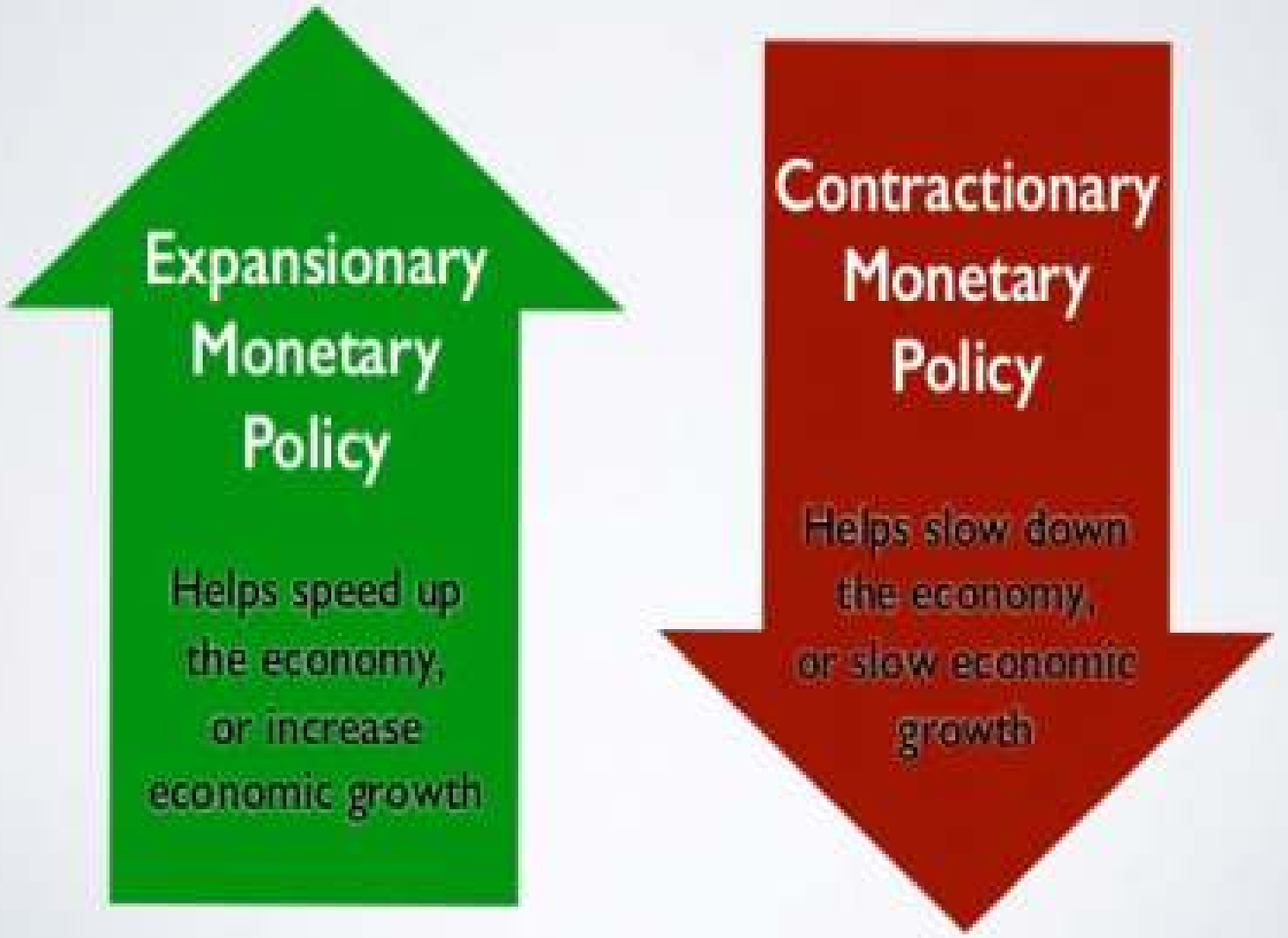
Monetary policy can either be expansionary or contractionary.

- When the monetary policy implemented by the central bank leads to an increase in the supply of money in the system, it is called expansionary monetary policy
- Conversely, when the actions reduce the quantity of money supply available in the economy, it is called contractionary monetary policy.
-

The central bank uses its monetary policy tools/instruments to increase or decrease the money supply.

MONETARY POLICY:

Types of monetary policies:

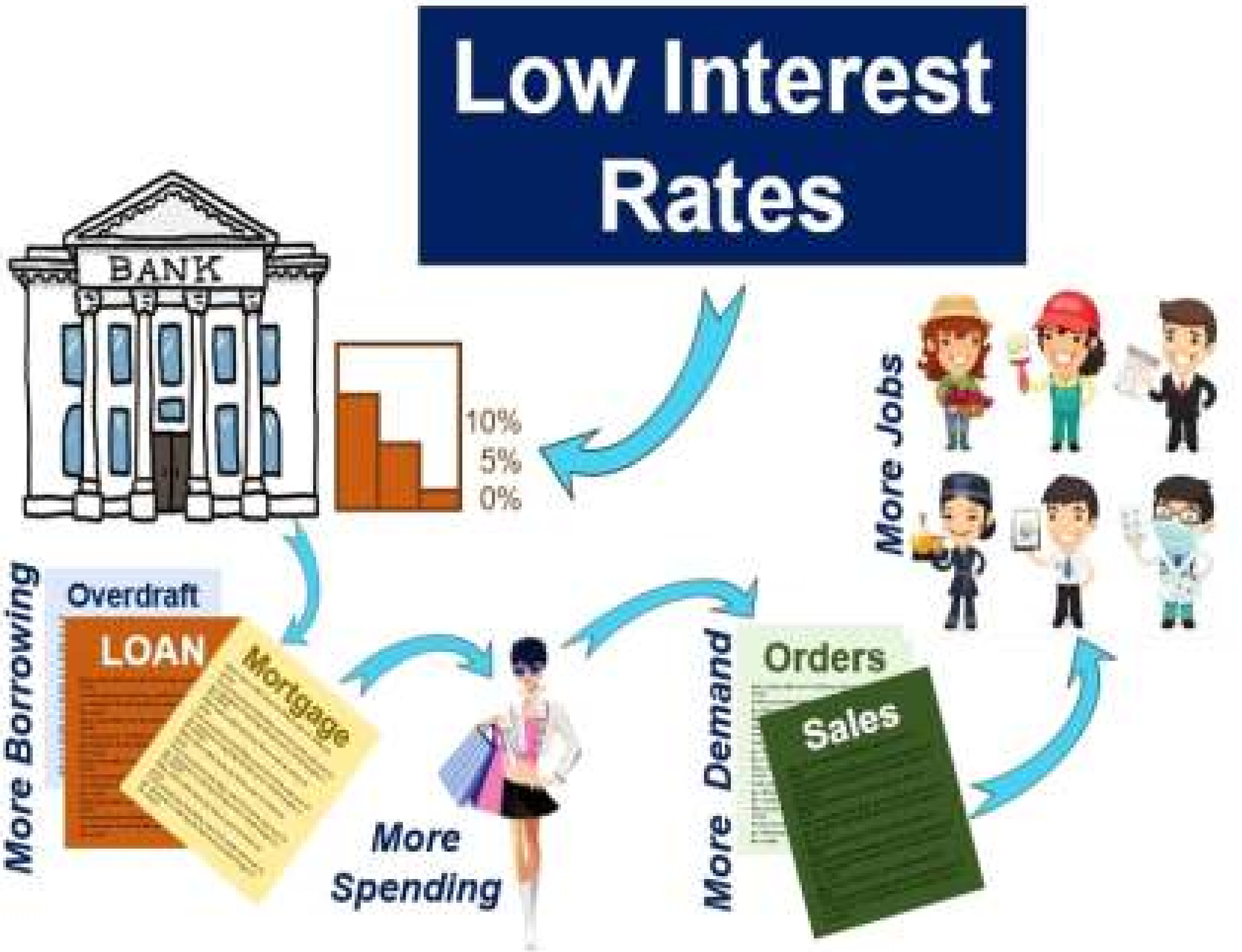

Expansionary Monetary Policy
Helps speed up the economy, or increase economic growth
Contractionary Monetary Policy
Helps slow down the economy, or slow economic growth

Objectives of Monetary Policy

- Monetary Policy objectives are derived from the legal framework outlined in the establishment Acts of the Central Bank. The broad objectives include:

  - Maintenance of price stability and non-inflationary growth - Low and stable, Inflation, Stable exchange rate and optimum interest rates
  - Real output growth
  - Reduction in the level of unemployment
  - Maintaining a healthy balance of payments position
  - Increased savings and credit flow to the priority sectors of the economy

- The Central Bank of Nigeria Act, 2007 explicitly states monetary and price stability as the primary objective of monetary policy


Low Interest Rates
BANK
10%
5%
0%
More Jobs
More Borrowing
Overdraft
LOAN
Mortgage
More Spending
More Demand
Orders
Sales

Instruments of Monetary Policy

- **Open Market Operations (OMO)** – These are monetary policy tools of the Central Bank. It involves either buying or selling of government securities. It usually sells to the banking and non-banking public to influence money supply. To reduce money supply, the Central Bank sells securities. To increase money supply, it buys securities. By redeeming them, it increases money supply.

- **Reserve Requirement:** As a requirement, Deposit Money Banks keep a fraction (or a combination) of their deposit liabilities (reserves) as vault cash and or deposits with the central bank. This constrains the volume of loans that banks can give out to the domestic economy and thus decreases money supply.

Tools of Monetary Policy
Quantitative Measures
Open Market Operation
Bank Rate Policy
Cash Reserve Ratio
Statutory Liquidity Ratio

Instruments of Monetary Policy……

- Monetary Policy Rate (MPR): This is an anchor rate which signals the direction of interest rate (lending and deposit) in the domestic money market. The MPR has an upper and lower corridor called the standing lending and deposit facilities, respectively.

  - Standing Lending Facility (SLF): The SLF grants overnight access to liquidity for participants in the Real Time Gross Settlement System (RTGS), to assist them cover their short positions in the interbank market and guarantee the smooth operation of the market. It is the upper corridor of the MPR
  - Standing Deposit Facility (SDF): The SDF on the other hand, provides the operators in the RTGS with an investment outlet for their surplus reserves, thereby providing more incentive for resource mobilization.

PLAN

Instruments of Monetary Policy……

- Discount Window Operations
- Repo (reverse repo)
- Forex Swaps
- Quantitative Easing/Quasi-fiscal Operations
- Foreign Exchange Trading Position

Institutional Framework for Monetary Policy in Nigeria

Monetary Policy Committee (MPC)

- The CBN Act (2007) mandates the Bank to ensure monetary and price stability amongst others.

- The Act vests the responsibility of ensuring monetary and price stability on the Bank through the Monetary Policy Committee (MPC) while the management of exchange rate is under the control the Board of the Bank.

- The MPC meets bi-monthly to assess developments in the international and domestic economy and determine the focus of monetary policy.

Institutional Framework for Monetary Policy in Nigeria

Monetary Policy Technical Committee (MPTC)

- The Committee meets one week before the Monetary Policy committee meeting to review the key risks, economic outlook and other presentations of importance from the various member departments

- Specifically, the MPTC services the MPC;
    - It prepares the technical reports—economic and financial stability reports which serves as input to MPC meetings

- The Committee tries to get a harmonized and consistent report for the MPC members and meets as often as it is necessary

Institutional Framework for Monetary Policy in Nigeria

Monetary Policy Implementation Committee (MPIC)

- Responsible for the implementation of monetary policy as decided by the Monetary Policy Committee on weekly basis + review market infrastructure :
    - Implements monetary policy decisions
    - Undertakes daily assessment of the path of liquidity
- The MPIC holds its meeting regularly

Institutional Framework for Monetary Policy in Nigeria

Liquidity Assessment Group (LAG)

- Assesses banking system liquidity on daily basis
  - ✓ It also serves to validate as well as improve the accuracy of the forecasts of liquidity
- Recommends actions for intervention in domestic money and foreign exchange markets

Institutional Framework for Monetary Policy in Nigeria

Fiscal Liquidity Assessment Committee (FLAC)

- FLAC is a Committee comprising various agencies of government established to collate monetary and fiscal data for monetary management

- The Committee meets regularly (weekly) to monitor daily collection and update of liquidity data from government fiscal operations - injections (expenditures) and withdrawals (revenues) and any intending operations that have liquidity implications - through the desk officers of the relevant MDAs for the use of the CBN in determining the system liquidity

- The Monetary Policy Implementation Committee (MPIC) and Monetary Policy Technical Committee (MPTC) uses the output of the FLAC as input for its' meetings.

THE CBN Regulatory Function

The CBN provides regulatory oversight for:

- Deposit Money Banks
- Primary mortgage institutions
- Bureau De Change
- Micro-finance Banks
- Finance Companies
- Discount Houses
- Development Finance Institutions

CENTRAL BANK OF NIGERIA

The Nigeria Deposit Insurance Corporation (NDIC)

- The mandate of NDIC includes:
  - The provision of insurance cover for depositors' funds in DMBs and other insured financial institutions.
  - Talking responsibility for liquidating distressed banks as well as jointly responsible with the CBN for supervising DMBs and other insured institutions.

NDIC
Nigeria Deposit Insurance Corporation
Protecting your bank deposits

The Securities & Exchange Commission (SEC) and Nigeria Stock Exchange (NSE)

- The SEC is charged with the responsibility of regulating the Nigerian capital market
- The NSE supervises the trading of securities in the Nigeria stock market

THE Nigerian
STOCK EXCHANGE

RC: 2321

Self-regulatory Organizations

- These include professional associations that prepare ethical codes and rules of practice by members

- Some of these include:
  - The Chartered Institute of Bankers of Nigeria (CIBN)
  - Association of National Accountants of Nigeria (ANAN)
  - Institute of Chartered Accountants of Nigeria (ICAN)
  - Association of Issuing Houses of Nigeria
  - Chartered Institute of Stock Brokers
  - Association of Capital Market Registrars
  - Financial market Dealers Association of Nigeria
  - Association of Bureau De Change Operators of Nigeria
  - Mortgage Banking Association of Nigeria

Professional Organizations

Role of CBN In Ensuring Financial System Stability

- Promoting financial stability remains one of the core functions of the CBN as outlined in Section 2 of the 2007 CBN Act

- The CBN carries out this vital function by undertaking financial sector surveillance with a view to promoting the stability and soundness of the entire financial system

FINANCIAL
STABILITY
CENTRAL
BANKS

The Direct Control

From the early stage of the Nigerian financial market, up to the mid-1980s, the CBN adopted direct control of credit allocation and interest rate structure to channel bank credit to prioritized sectors of the economy.

During this period, banks were mandatorily required to allocate a larger portion of their loanable funds to the growth sectors such as agriculture and manufacturing at relatively low interest rate.

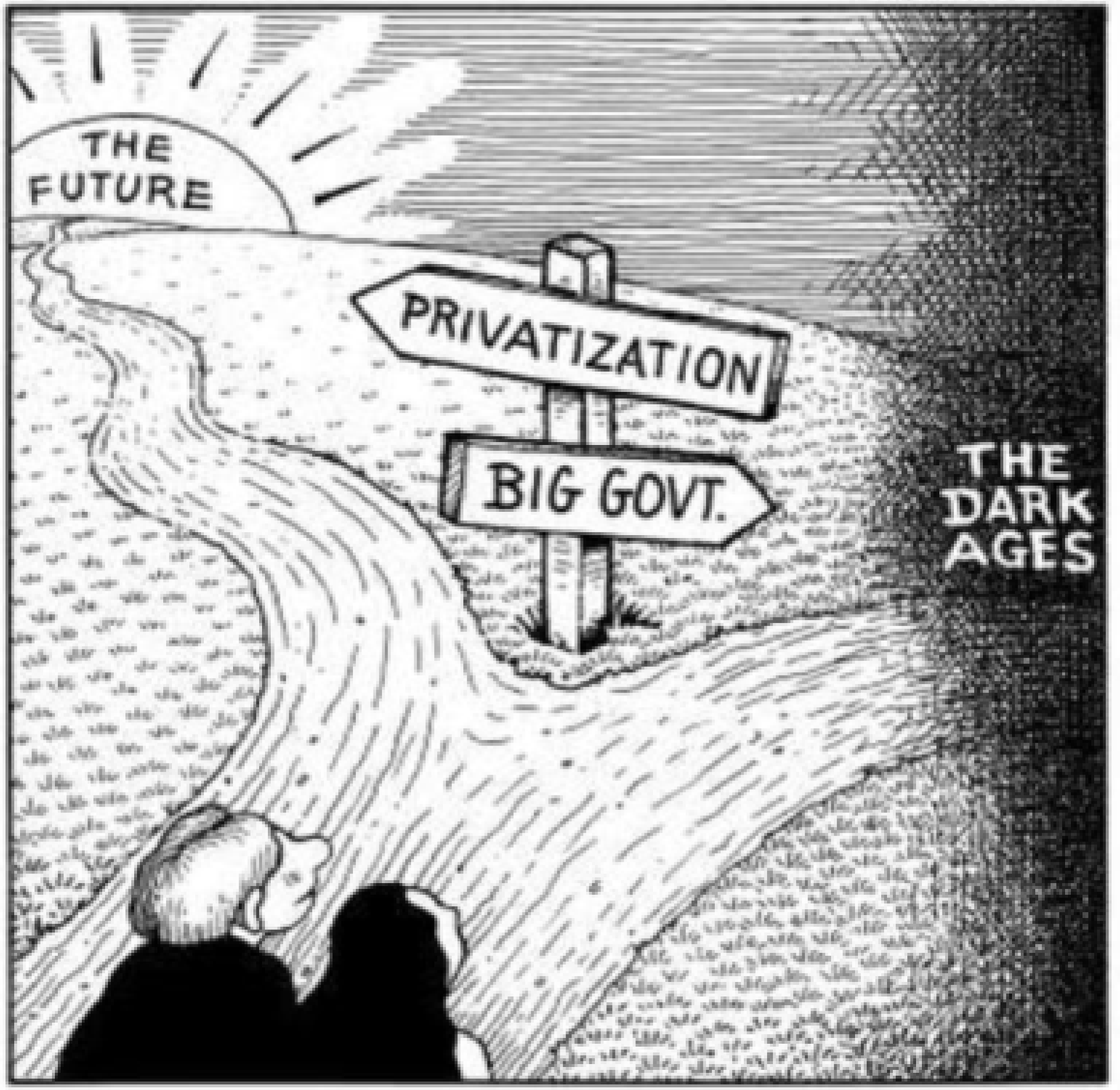
The low interest rate structure was designed to serve as an incentive for private investors to access enough credit to increase output, stimulate growth and provide jobs

Market-based Reforms

The direct control measures failed to deliver the expected results and was abolished, giving way to the introduction of market-based approach in 1986.

The adoption of market based model was the first comprehensive reform of the financial system in Nigeria.

It was predicated on the need to liberalize the interest rate system, enhance efficiency and effectiveness of resource mobilization and utilization and promote growth, particularly the real sector of the Nigerian economy.


THE FUTURE
PRIVATIZATION
BIG GOVT.
THE DARK AGES

Surveillance

To ensure a sound and stable banking system capable of delivering effective intermediation role, the CBN formulated strategies through effective surveillance and enforcement of prudential standards.

The primary goal of these reforms centered on increased liberalization of banking business, and the promotion of healthy competition and safety measures amongst banks, towards engendering overall financial system stability.

On-site/Off-site Examination

The supervisory process of the CBN involves both on-site and off-site arrangements.

The on-site aspect of the Bank's function includes independent on-site assessment of banks' corporate governance, internal control system, reliability of information provided, etc.

The off-site aspect reviews and analyses the financial conditions of banks using prudential reports, statutory returns and other relevant information.

BIG
BROTHER
IS
WATCHING

Money Market Development – Nigerian Treasury Bill (NTB)

Prior to the establishment of the Nigerian financial market, banks relied extensively on the London Money Market for investing their surplus.

This practice made liquidity and conduct of Monetary Policy extremely difficult.

To mitigate against the difficulties, the first Nigerian Treasury Bill was established in 1960, which marked the establishment of the Nigerian Money Market. The CBN issues treasury bills to borrow on behalf of the Federal Government.

To ensure the smooth operation of the process, the CBN offeres rediscount facilities to holders of the bills and offered to take up unsubscribed portions of the issues.

Offer-Circular

Pursuant to the Debt Management Office (Establishment) Act 2003 and the Local Loans (Registered Stock and Securities) Act [Cap 221 LFN 1990

THE CENTRAL BANK OF NIGERIA

on the authority of the

DEBT MANAGEMENT OFFICE

on behalf of the

FEDERAL GOVERNMENT OF NIGERIA

Offers for Subscription by Auction

and is authorized to receive applications for

₦30,000,000,000 - 15.10% FGN APR 2017 (Re-opening 5-year Bond)

₦30,000,000,000 - FGN JUN 2019 (New Issue 7 -year Bond)

₦23,611,650,000 - 16.39% FGN JAN 2032 (Re-opening 20-year Bond)

The Call Money Fund

The Call Money Fund was expanded in 1962 to promote inter-bank lending.

Participating institutions keep temporary surplus cash with the CBN, which in turn, invests the funds in treasury bills.

Technically, the CBN administers the Fund on behalf of the participating institutions and pays interest at a rate fixed below the treasury bill rate.

The scheme was phased out in 1974, because of shortage of treasury bills in the money market.

CALL RATES

Intra-day

Source: Bloomberg
Compiled by BS Research Bureau

The Nigerian Treasury Certificates (NTCS)

This is a medium-term money market instrument issued in 1968 to fill the vacuum created by the termination of the Produce Bills and to meet the financial requirements of financing the 30-month civil war.

NTCs maturity period is one and two years.

It was technically suspended immediately after the civil war.

The objective of the suspension was to reduce the cost of government borrowing.

However, the dwindling oil revenue in 1977 informed the resurgence in the issuance of NTBs and NTCs.

The certificate is issued by the CBN on behalf of the Federal Government of Nigeria.

FEDERAL GOVERNMENT OF NIGERIA

No. No.

TREASURY BILL

(TREASURY BILLS ORDINANCE, 1959.)

Due

£1,000

LAGOS, 19 .

This Treasury Bill entitles

* SPECIMEN or Order

to Payment of One Thousand Pounds at the

Central Bank of Nigeria, Lagos

on the day of 19 .

GENERAL MANAGER SECRETARY

CENTRAL BANK OF NIGERIA

* IF THIS BLANK BE NOT FILLED IN, THE BILL WILL BE PAID TO BEARER.

Repurchase Transactions

Repurchase transaction is another notable development of the Nigerian capital market.

It is used as a monetary policy tool and later as a form of money market investment by the Central Bank to accommodate observed market short-falls.

It provided an avenue for injecting funds into the system whenever there is tight liquidity and the reverse repo is conducted to mop up excess liquidity.

During the period, 1991 to 1995, the money market was largely driven by developments in the foreign exchange market, and the repo/reverse repo transactions only assisted in mitigating the distortions caused by policy inconsistencies.

REPURCHASE AGREEMENT

Featured Mortgage Financing Agreements

MASTER REPURCHASE AGREEMENT

Dated as of February 28, 2007

Between

AMERICAN HOME MORTGAGE ACCEPTANCE, INC.,

AMERICAN HOME MORTGAGE CORP.,

AMERICAN HOME MORTGAGE INVESTMENT CORP.

and

AMERICAN HOME MORTGAGE SERVICING, INC.,

as Sellers

and

ABN AMRO BANK N.V.,

in its capacity as "Agent" for the "Purchasers",

as Buyer

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More at agreements.org

Standing Facilities

The CBN introduced the standing facilities in December 2006 with a view to motivating deposit money banks to target nil balances, through active inter-bank trading.

In the exercise of its function as lender of last resort, banks can borrow from the CBN and can as well deposit excess funds overnight.

The standing facilities are of two types, namely, the lending and the deposit facilities.

Promoting financial stability remains one of the core functions of the CBN as outlined in Section 2 of the 2007 CBN Act.

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MONEY MARKET

Major Players in the Money Market

The major players in the Nigerian money market are the CBN, the Deposit Money Banks, the Discount Houses and Money Market Dealers.

The CBN plays an important role in the development and running of the Nigerian money market.

The CBN's role in the money market has been most noticeable in the area of institutional development, the supply of money market instruments of various tenors.

Other areas include interventions in the market to moderate interest rate volatilities, human capacity building, the resolution of trade disputes among market participants, and the provision of custodianship, supervisory and registry services.

CENTRAL BANK OF NIGERIA

Deposit Money Banks

The DMBs constitute a major segment of the money market and play a vital role in the sustenance and development of the market.

They mobilise funds in the form of deposits and facilitate money creation by extending credit to individuals, corporate organisations and governmental bodies.

However, the DMBs are regulated by the CBN

TELLER

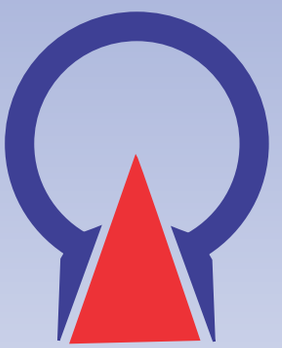
Discount Houses

Given the paradigm shift from direct to indirect or market-based monetary policy in 1993, it was imperative to create an institution to facilitate the indirect monetary policy framework.

This necessitated the issuance of guidelines on December 27, 1991 by the CBN for discount house operations, leading to the emergence of five discount houses between 1992 and September 1996.

They act as intermediaries between the CBN and the DMBs to access the CBN discount window.

They facilitate the issue and sale of short-term government securities by tender and also provide discount/rediscount facilities for Treasury Bills, government securities and other eligible financial instruments acquired by the DMBs.



Associated Discount house Limited

...Money managers you can trust

Money Market Dealers

To deepen and improve the efficiency of the money market for effective liquidity management, the CBN appointed seventeen (17) DMBs and three (3) Discount Houses in 2006 as Money Market Dealers (MMDs).

With the appointment of the MMDs, participation in the primary and OMO auctions was limited to authorised MMDs.

Non-MMDs. were required to submit their bids through MMDs.

CENTRAL BANK OF NIGERIA
ONE THOUSAND NAIRA

The Foreign Exchange Market

The foreign exchange market is another component of the money market.

The major participants in this market are the DMBs, public sector, CBN, Bureau de Change, and retail customers.

The CBN is a major regulator and supplier of foreign currency in the foreign exchange Market.

CBN also participates in the buying and selling of foreign exchange.

While the DMBs constitute the major players in the foreign exchange market, the BDCs are registered foreign exchange dealers who engage in 'over-the-counter' (OTC) transactions to meet the needs of small-scale users of foreign exchange.

FOREIGN EXCHANGE MARKET

Interbank Foreign Exchange and Capital Markets

The inter-bank foreign exchange market is a medium of trading foreign exchange among DMBs, using autonomous or privately-sourced foreign exchange.

It is an integral part of the Foreign Exchange Market.

The capital market is the long-term end of the financial market.

Investors can buy and sell financial instruments in this market through the new issue market (primary market) or the Stock Exchange (secondary market).

CAPITAL
MARKET

CBN and Capital Market Development in Nigeria

The CBN has played an extremely vital role in the development of the Nigerian capital market.

One channel is through its direct involvement on the boards of these institutions.

Another channel is through the Financial Services Regulation Coordination Committee of Nigeria (FSRCC).

The robust banking sector consolidation in 2004 also helps to deepen the market in terms of size and volume of activities.

CENTRAL BANK OF NIGERIA

The Federal Government of Nigeria Treasury Bonds

CBN introduced the Federal Government Treasury Bonds in 1989, with the objective of minimizing the debt service obligations of the Federal Government.

The bonds grew from the conversion of treasury certificates that had been used to finance Federal Government deficits over the years.

Treasury bonds have become an attractive instrument of financing the deficits of the Federal Government.

BONDS

Main Institutions in the Bond Market

The Debt Management Office (DMO) is a major player in the Nigerian debt market.

DMO was set up in October 2000, with the legislation passed in June 2003.

The objective was to provide a one-stop shop for clearing all Nigerian government debts at all levels.

Prior to its establishment, Nigeria had a grossly underdeveloped domestic debt market as debt management responsibilities were split among several agencies and departments, of both the CBN and the Federal Ministry of Finance.

DEBT MANAGEMENT OFFICE
NIGERIA

Reserve Management

According to the International Monetary Fund, reserve Management entails the availability and control of adequate foreign assets owned by the public sector to meet clearly defined objectives for a country or union. Reserves are mostly held in convertible currencies of the world such as the US dollar, British pound, euro and yuan. Convertible currencies are currencies that are freely converted into another without any regulatory restrictions.

Reserves are usually managed and controlled by a monetary authority like the CBN.

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Rationale ...

Foreign exchange reserves are held for a number of reasons. They are held for the purpose of meeting international payment obligations. Nigeria import goods and services from other countries of the world who use other currencies other than the naira. As such, it use the foreign reserves to pay for these goods and services.

In addition, foreign exchange reserves are used as intervention instrument by monetary authority to ensure exchange rate stability. No country in world allows its currency to freely float without intervening in the market when the need arises. This is to ensure that the exchange rate remains within a desirable level.

Composition of Nigeria's External Reserves

The Central Bank Act 2007 vests the custody and management of Nigeria's foreign exchange reserves with the CBN. The Act empowers the Bank to hold foreign reserves in the following: gold coin or bullion; balance in any bank outside the country where the currency is freely convertible , and in such currency, notes, coins, money at call and any bill of exchange bearing at least two valid authorized signatures and having a maturity of more than ninety days.

Others are treasury bills having a maturity of not more than one year issued by the government of any country whose currency is freely convertible; securities of or guarantees by a government of any country outside Nigeria whose currency is freely convertible with maturity of not more than ten years; securities of or guarantees by international financial institutions of which Nigeria is a member, provided they are freely convertible; Nigeria's gold tranche at the IMF, as well as allocation of Special Drawings Rights made to Nigeria by the IMF.

PURE
GOLD
9999.9
100000

The Evolution and Profile of Reserves Management…..

The establishment of the CBN prompted the West African Currency Broad (WACB) to withdraw its Sterling notes and coins from circulation on July 1, 1959.

The CBN then assumed the responsibility of housing and managing the country's reserves when it acquired the legislative backing to issue legal tender in the form of notes and coins.

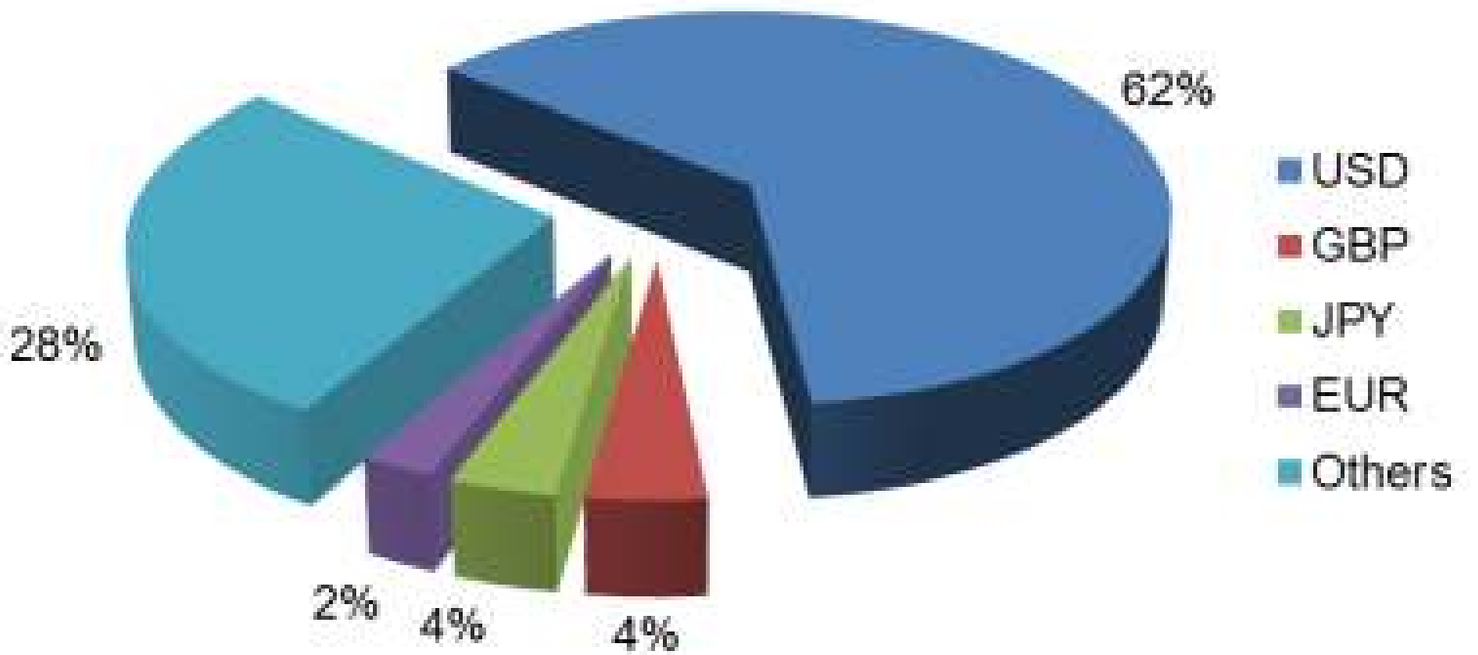
FEDERAL REPUBLIC OF NIGERIA
5/-
CENTRAL BANK OF NIGERIA
promise to pay on demand the sum of
FIVE SHILLINGS
B/43 821213
B/43 821213
GOVERNOR
CHIEF OF BANKING OPERATIONS
5/-

The Evolution and Profile of Reserves Management…..

The Federal Government, in 1961 instructed all other agencies holding Foreign exchange reserves to surrender them to the CBN to ensure efficiency and effectiveness in the management thereof.

The Bank's reserve management strategy has evolved over time and reserve levels continue to fluctuate in tandem with international crude oil prices, the primary source of the nation's foreign exchange.

Currency Composition of World FX Reserves



Source: International Monetary Fund Q1 2012

Ownership Structure of Nigeria's External Reserves

Nigeria's foreign exchange reserves are comprised of three components:

- **The Federation component** - Sterilized (un-monetized) funds held in the excess crude account and petroleum profit tax/royalties accounts at the CBN belonging to the three tiers of government;

- **The Federal Government component** – Funds owned by some agencies of federal government to facilitate their operations;

- **The Central Bank of Nigeria component** - Funds monetized and allocated by the three arms of government. Being a banker to the government, the CBN receives funds (foreign currency) belonging to the government and its agencies and purchases such funds to credit the accounts of said agencies with the naira equivalent.

Exchange Rate Management

Exchange rate management is the use of policy instruments to influence the exchange rate and maintain price stability in the foreign exchange market.

This can be achieved via:

- Direct intervention in the FX market
- The use of monetary policy tools to influence the long run real exchange rate
- Capital controls to influence value and volume of the exchange rate

Objectives of Exchange Rate Management -

The primary objective of exchange rate management in Nigeria is to preserve the value of the domestic currency.

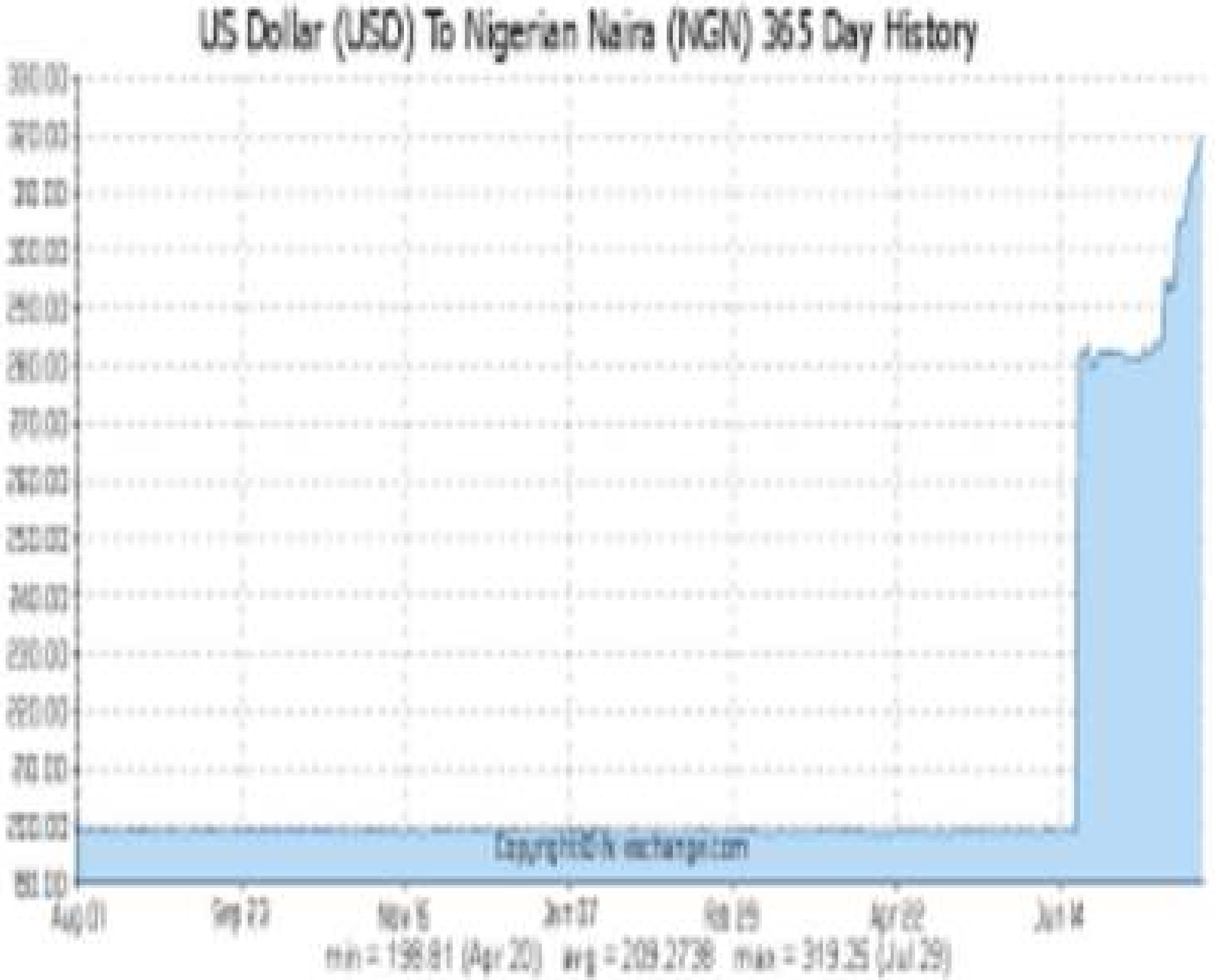
To maintain a favourable external reserves position in order to enable the Bank defend the internal value of domestic tender currency.

To ensure external balance without compromising internal balance and overall goal of macroeconomic stability.

Supply
Demand

Regimes of Exchange Rate Management

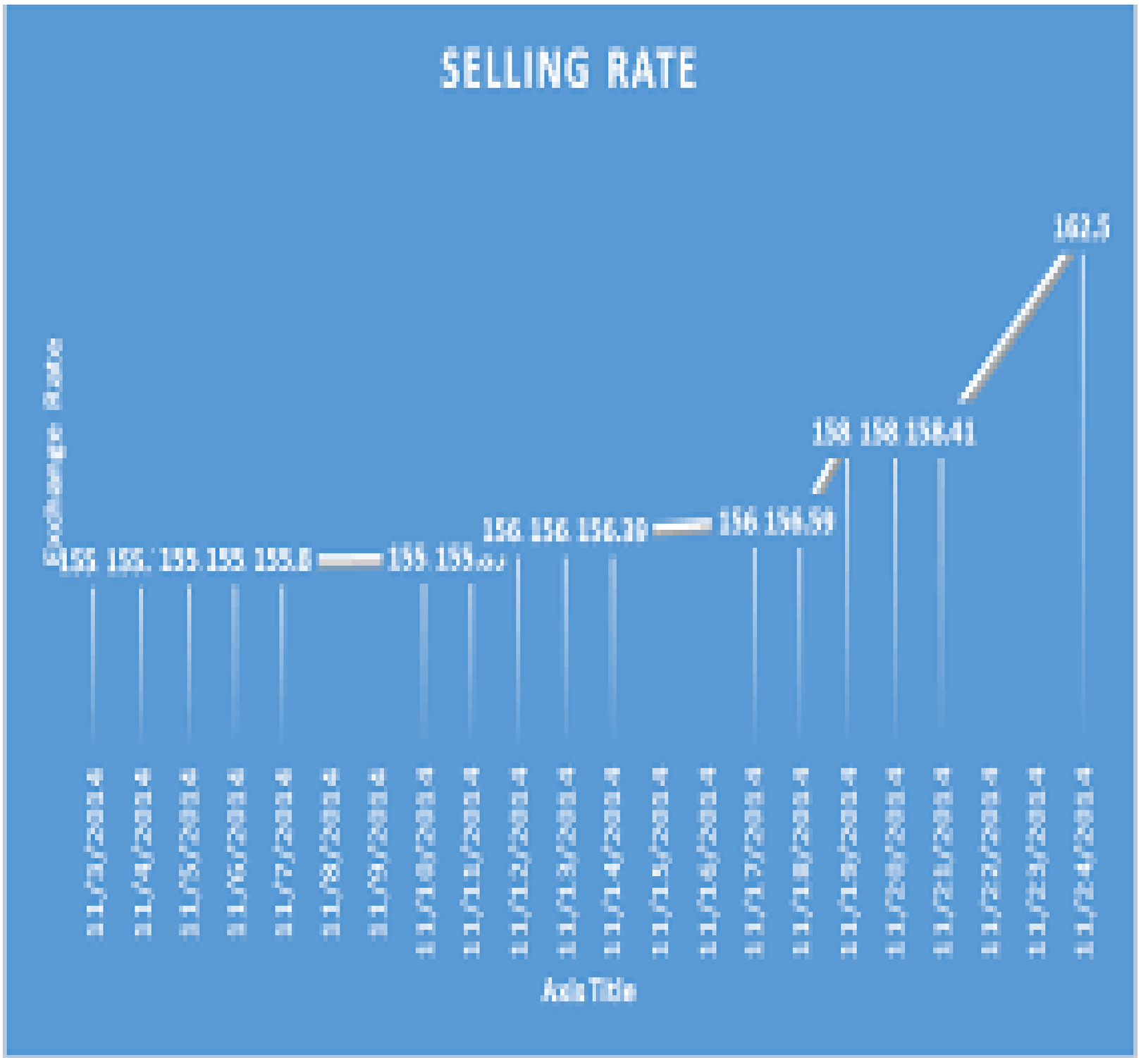
The CBN has employed various regimes of exchange rate management ranging from fixed to flexible rates in order to achieve the overall mandate of price stability. A number of methods have been used in determining the appropriate exchange rate of the naira. The fixed exchange rate regime was in effect from 1959 – 1986 until the implementation of the flexible regime in effect till date.


US Dollar (USD) To Nigerian Naira (NGN) 365 Day History
300.00
290.00
280.00
270.00
260.00
250.00
240.00
230.00
220.00
210.00
200.00
Aug 01
Sep 23
Nov 15
Jan 07
Feb 29
Apr 22
Jul 14
min = 196.81 (Apr 20)
avg = 209.2736
max = 319.25 (Jul 29)

Retail and Wholesale Dutch Auction System

The Dutch auction system (DAS) is a public offering auction of foreign exchange in which the price is determined after all bids are submitted, and the price at which the market clears is taken as the ruling rate. Under this arrangement, authorized dealers submit bids for the amount of FX required at a stated price at which the currency will be sold.

Under the wholesale DAS, authorized dealers submit bids on behalf of their customers, which may exceed bids as by the clients. This excess may be sold at the interbank market, whereas the retail DAS makes it compulsory for authorized dealers to bid for exact requests from their clients. The CBN closed both windows on February 18, 2015.


SELLING RATE
155
155.
155
155
155.8
155
155
156
156
156.30
156
156.59
158
158
158.41
163.5
Axis Title

Development Finance…….

Development financing is an important element required to achieve sustainable economic growth and development. The long gestation period required for agricultural production and the provision of certain infrastructures such as power made lending to the sector unattractive. As a result, the Bank's intervention in this critical sector of the economy became imperative.

The Bank's development finance responsibility entails the formulation and implementation of various policies, innovation of appropriate products and creation of enabling environment for financial institutions to deliver services in an efficient and effective way to the critical sector of the economy

Development Finance

Section 31 of the CBN Act 2007 empowers the Bank to embark on developmental roles and to "... hold and sell shares of any Corporation or company or debentures thereof set up with the approval of or under the authority of the Federal Government for the purpose of promoting the development of money or capital markets in Nigeria or of stimulating financial or economic development..."

CBN Interventions Scheme

Agriculture Credit Guarantee Scheme Fund (ACGSF).

The ACGSF was established by Decree No. 20 of 1977, and began operations in April 1978. the fund guarantees credit facilities extended to farmers by banks up to 75 per cent of the amount in default net of any security realized.

Agricultural Credit Support Scheme (ACSS). The ACSS is an initiative of the Federal Government and the CBN, with the support of the Bankers Committee. It has capital base of N50.0 billion, and its objective was to enable farmers exploit the untapped opportunities in the agricultural sector, reduce inflation, curb wastages and generate surplus for export.

CBN Interventions…..

The Commercial Agriculture Credit Scheme (CACS)

CACS was introduced as part of the Bank's developmental role to fast track the development of the agricultural sector by providing finance to large scale enterprises in the agricultural value chain.

1261

Interventions…..

Nigerian Electricity Market Stabilization Facility (NEMSF)

As part of commitment to strengthen the real sector, the Bank established a CBN-Nigeria Electricity Market stabilization Facility (CBN-NEMSF). The NEMSF is aimed at settling outstanding payment obligations due to market participants under the IRP Debts as well as legacy gas debts of the PHCN generation companies owed to gas suppliers and the Nigeria Gas Company which was transferred to the Nigeria Electricity Liability Company Limited with the objective of putting the NESI on a route to economic viability and sustainability. Nigerian Electricity Market Stabilization Facility has a fund of N213 billion.

Interventions…..

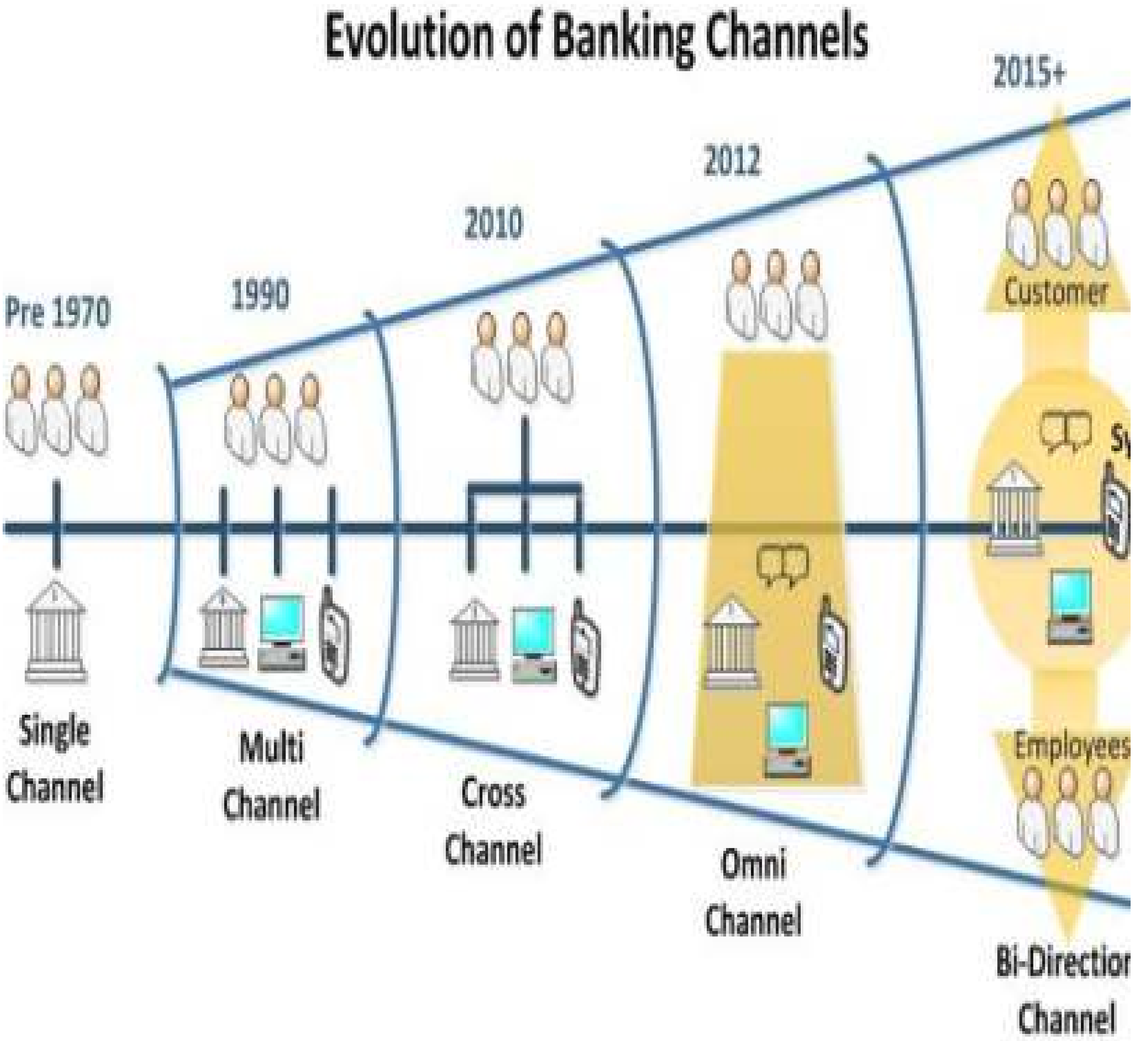
The Entrepreneurship Development Centres (EDCs)

EDCs initiative by the Bank was intended to support youth entrepreneurship to set up businesses and create self-employment towards poverty reduction. Currently, there are a total of six EDCs, one located in each of the six geo-political zones of the country: North-East (Maiduguri), North-Central (Makurdi), North-West (Kano), South-South (Calabar), South-West (Ibadan) and South-East (Umuahia) with one outreach center located in the North-Central (Minna).

Development of the Payments System

- The Nigerian payments system has witnessed tremendous developments from its rudimentary level as a result of collaborative efforts of the CBN and Deposit Money Banks (DMBs) as well as other key stakeholders.

- Following its mandate of ensuring a reliable and efficient payments system, the CBN has embarked on a number of initiatives geared towards the provision of needed infrastructure and the development of institutional and regulatory frameworks.


Evolution of Banking Channels
2015+
2012
2010
1990
Pre 1970
Customer
Single Channel
Multi Channel
Cross Channel
Omni Channel
Employees
Bi-Direction
Channel

Cheque Clearing and Settlement

The introduction of Nigeria Automated Clearing System (NACS), an initiative of the CBN and the Bankers Committee, enhanced the efficiency of the cheque clearing system and contributed to the significant growth in the volume and value of cheques cleared. Coupled with the use of Real Time Gross Settlement (RTGS) System for the settlement of net clearing position, the clearing cycle which now stands at T+2 (Transaction date + 2 working days) nationwide has witnessed great improvements thereby further propelling public confidence in the use of cheques.

Clearing House Activities

In the CBN Act, Section 41 states that "it shall be the duty of the CBN to facilitate the clearing of cheques and credit instruments for banks carrying on business in Nigeria and for this purpose, the Bank shall at any appropriate time and in conjunction with other banks establish clearing houses in premises provided by the Bank in such places as the Bank may consider".

In exercise of this power, the Bank established the Lagos Clearing House in 1961 to facilitate the clearing of cheques among banks. This was in response to the acceptance of cheques and other paper instruments such as postal order among the banking public. The CBN successively established Clearing Houses in all the 28 clearing zones across the country.

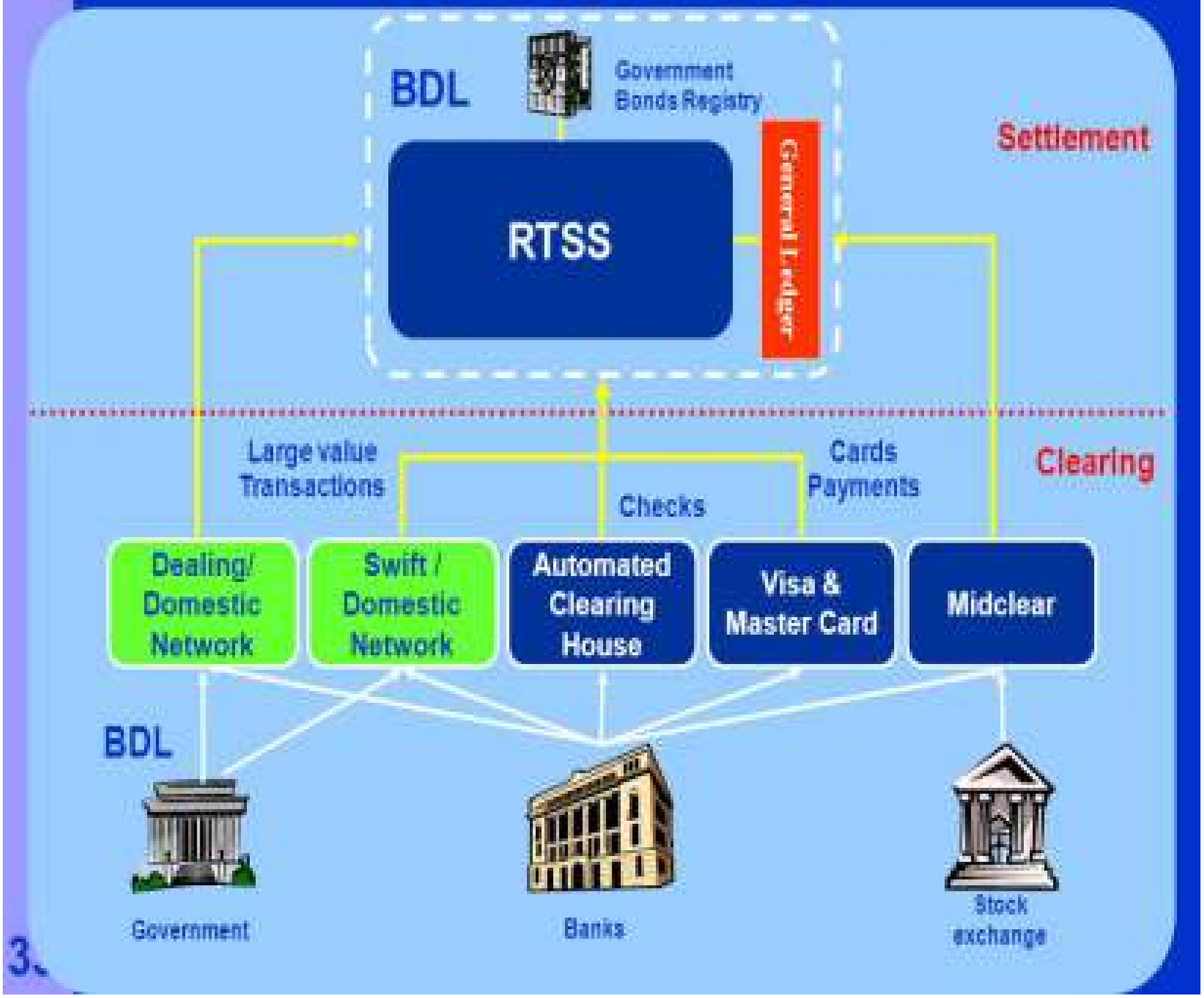
HDFC BANK
PAYABLE AT PAR AT ALL BRANCHES OF HDFC BANK LTD
A/C PAYEE ONLY
Date
PAY Sample Payee Company
RUPEES Forty Six Thousand Four Hundred Fifty
Dollars and Fifty Cents Only
Rs. *** 46,450.50 ***
A/c No:
HDFC BANK LTD
Sample
Authorised Signatory

Nigeria Automated Clearing System (NACS)

Following the myriad of problems associated with Magnetic Ink Character Recognition (MICR) implementation, the Bank, in consultation with the Bankers' Committee, decided to fully automate the clearing process by introducing the latest clearing technology, the NACS. The NACS became operational in October 2002 in the Lagos Clearing Zone before it was extended to Abuja in March 2005 and later to Port Harcourt in 2008. The Nigeria Inter-bank Settlement System (NIBSS) PLC, established in 1993 was mandated to manage the NACS system.

As a veritable platform for supporting the electronic payments system, the NACS facilitated efficient and cost effective process of clearing items based on electronic data presentation. It also facilitated the development and settlement of products such as electronic card transactions, NIBSS Fast Funds, and NIBSS Electronic Funds Transfer (NEFT) in addition to the paper based instruments. Furthermore, the NACS made it possible for the clearing cycles of local and upcountry instruments to be reduced drastically.

Real-Time Settlement Systems Process Flow



Electronic Payments

Payment Cards were introduced into Nigeria in the early nineties but suffered low acceptance at the initial stage, due to a number of factors which included amongst others: lack of shared network, poor services, limited Automated Teller Machines (ATM) and Point of Sales (POS) Terminals and high cost of operations.

However, the collaborative efforts among the CBN, banks and other stakeholders significantly facilitated the adoption of electronic payments in Nigeria.

Wi-PAY
Menu
BANK
Wi-PAY

Automated Teller Machines (ATM)

There had been various attempts by banks at operating Automated Teller Machines in the early nineties. Such ATMs were stand alone without being interoperable. In view of the problems of interoperability, a consortium of banks introduced common platforms for shared ATMs and floated switching companies.

The CBN licensed the first Electronic Funds Transfer (EFT) switch in 2004 and by 2008, the number of switches had increased to five. The initiatives, together with other developments in infrastructure and regulatory framework, brought about an upsurge in the use of ATMs and debit cards. On the other hand, the POS terminal that started as offline device recorded some improvement.

Point of Sale (POS) Terminal

With the first CBN licensed Electronic Funds Transfer (EFT) switch in 2004, initiatives, together with other developments in infrastructure and regulatory framework, brought about an upsurge in the use of debit cards.

On the other hand, the POS terminal that started as offline device recorded some improvement. The growing connectivity of POS terminal via General Packet Radio Services (GPRS) facilitated their spread across the country without being constrained by the non-availability of wired line connectivity.

Mobile and Web Payments

The preponderance of GSM services in 2002 has paved way for the introduction of electronic payments, using mobile phones, popularly known as mobile payment in Nigeria. To guide the conduct of its operations, the CBN drafted a Regulatory Framework for Mobile Payments Services in 2008.

This is aimed at providing guidance on the use of the mobile phone for provision of payments services in the country. The mobile payments regulatory framework provides minimum standards on technology, security, operations and dispute resolutions. Internet is increasingly being used for financial services in Nigeria. Deposit Money Banks and Merchants are enabling their customers to conduct some financial services such as purchase of air tickets/other products, account inquiry and funds transfer using this medium.

AMERICAN EXPRESS
Diners Club INTERNATIONAL
VISA
PayPal
DISCOVER

e-Banking

The Central Bank of Nigeria in an attempt to promote electronic banking in Nigeria, issued the guidelines on e-banking in 2003.

This has encouraged the development of e-payment initiatives, such as the establishment of switching companies that facilitate interconnectivity, introduction of shared ATMs and the establishment of Independent Service Operators (ISO) for massive deployment of ATMs and POS, which gave rise to significant growth in the use of payment cards.

Currency

Currency can be described as a generally accepted form of money which includes coins and paper notes. Issued by a government, currency is circulated within the economy and used as a medium of exchange for goods and services. Therefore, it is known as the basis for trade.

Issuing legal tender currency is one of the objectives of the CBN.

CENTRAL BANK OF NIGERIA
1000
₦500
₦200
50
20
10
5
FIVE
NAIRA

Paper Money

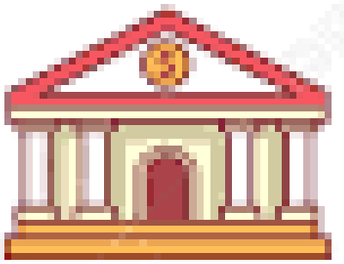
Paper money can be described as any country's official paper currency that is circulated for transaction-related purposes. The printing of paper money is typically regulated by a country's central bank/treasury in order to keep the flow of money in line with monetary policy. Paper money is printed with security features which makes it difficult for counterfeiters to create illegal copies.

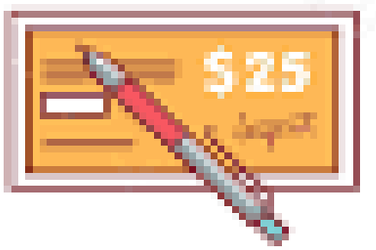
In Nigeria, this function is supervised and controlled by the CBN.

CENTRAL BANK OF NIGERIA
1000
₦500
₦200
50
20
10
5
CENTRAL BANK OF NIGERIA
FIVE NAIRA

Currency Operations

Currency is made up of notes and coins and is used for the purpose of facilitating financial transactions in the economy and as a store of value. Since its establishment in 1959, the CBN has sole responsibility for the issue of legal tender currency (notes and coins) in the country. In addition, the Bank manages the currency in a manner designed to promote monetary stability and economic growth in the country. This mandate is implemented through the various currency management activities, including the design, denomination, production storage, distribution as well as the processing and disposal of currency withdrawn from circulation.

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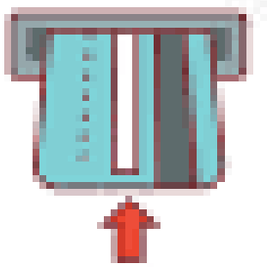
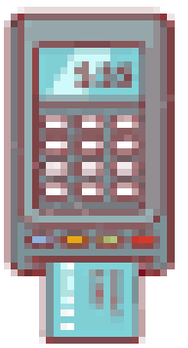




Currency Storage

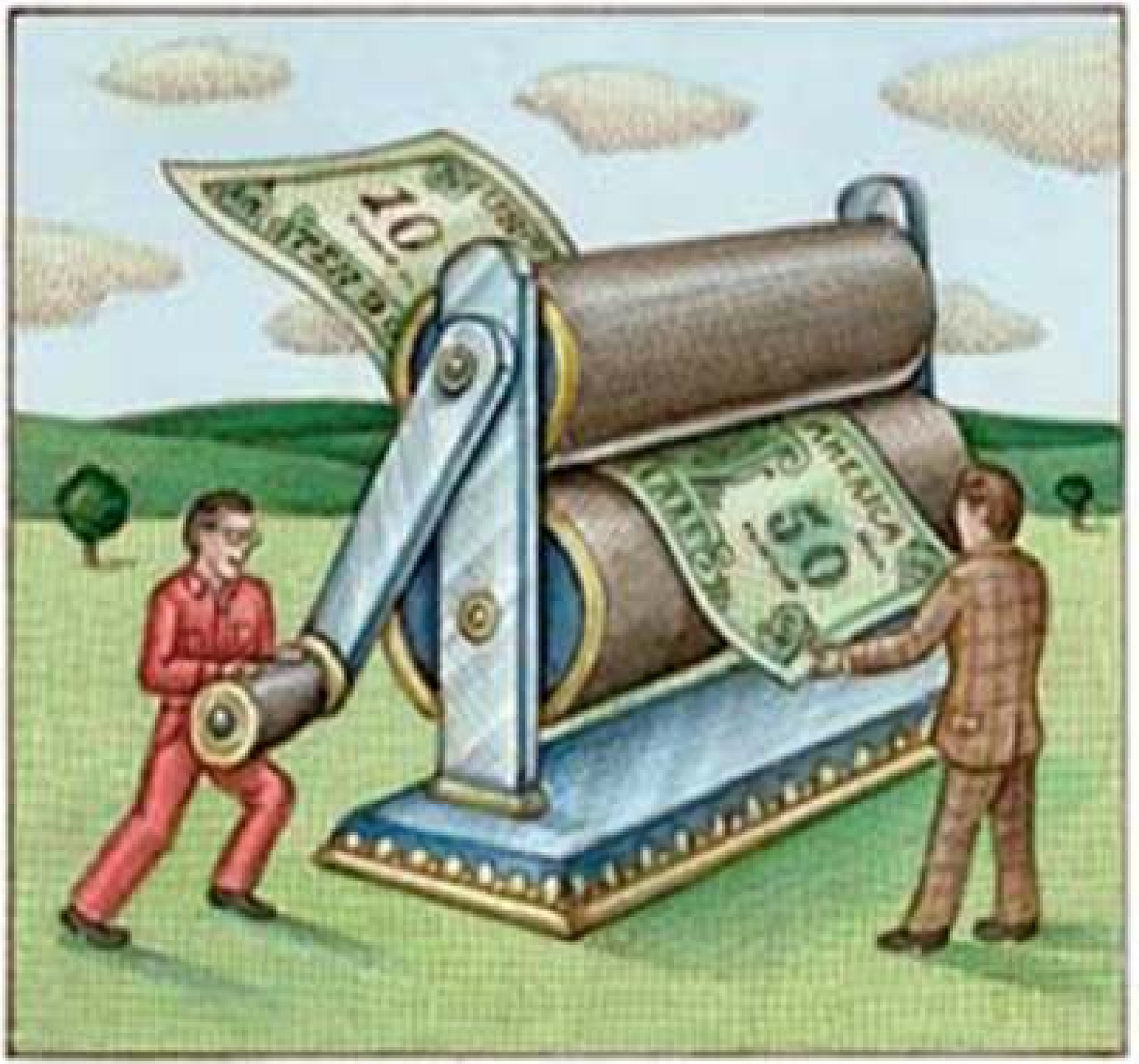
Cash deposits from DMBs, receipts of mint notes, are usually kept at CBN treasury. The CBN receives the large volume of banknotes deposits from the DMBs, subject to secondary level examination at a later date. Secondary level examination is expected to be concluded within two (2) years of deposit. Where the notes are not examined within that deadline, they become time-expired, and storage becomes a problem. The implication is that the CBN has no recourse, whatsoever, to the depositing banks for any irregularities, including shortages and counterfeit that may be found in the affected deposits.

Seigniorage Revenue

Seigniorage is the income derivable from currency issuance. It is the difference between the actual cost of currency production and the face-value (usually sovereign prerogative charge by mints for coining gold, silver, and cupro-nickel coins and later, charge for printing notes).

Globally, central banks explore the possibility of improved revenue through seigniorage. The CBN is also exploring seigniorage income to aid in financing the growing expenditure profile on currency management. It constituted an inter-departmental Committee made up of Directors to explore the possibility of seigniorage income derivable from the issuance of currency in Nigeria.

In Nigeria, seigniorage earnings are implicit in the difference between the face values of currency and the cost of production and distribution, and also embedded in the monetization of foreign exchange receipts of the Bank.



CBN Branches

The Central Bank of Nigeria currently has 37 branches located in all 36 states of the Federation and the Federal Capital Territory for efficient discharge of their functions.

These branches can be described as the front offices of the Bank because they are usually the first port of call for the external customers.

Activities of CBN Branches

CBN Branch activities include receipts of cash deposit from the DMBs in the treasury and cheque lodgments. They also facilitate withdrawal by DMBs which is done through the treasury. The branches also make cash payments by tellers in the Banking Office to both internal and external customers.

Activities of CBN Branches……..

Other functions of CBN branches include safe custody facilities, teller receipts, clearing operations (Cheque Truncation System), Currency processing activities (currently being carried out in older Branches). Other activities include, provision of data and information on activities to SBUs in the Head Office, E-payment transactions, Processing of vendor bills, and Agricultural credit guarantee scheme (ACGS) operations.

Activities of CBN Branches……..

CBN Branches are responsible for the Sales of foreign exchange (FOREX) to Bureau de Change (BDCs). This is currently done in only 24 branches of the CBN.

They are also in charge of payment of Estacode to CBN Staff and this is done in Lagos and Abuja branches only.

Activities of CBN Branches……..

CBN Branches also assist in mutilated notes operations, which is the destruction of audited mutilated notes by in-house and open air burning.

They also provide adjudication in forged and counterfeit notes through the Nigerian Security Printing and Minting (NSPM) Plc.

CASHCOW

Activities of CBN Branches……..

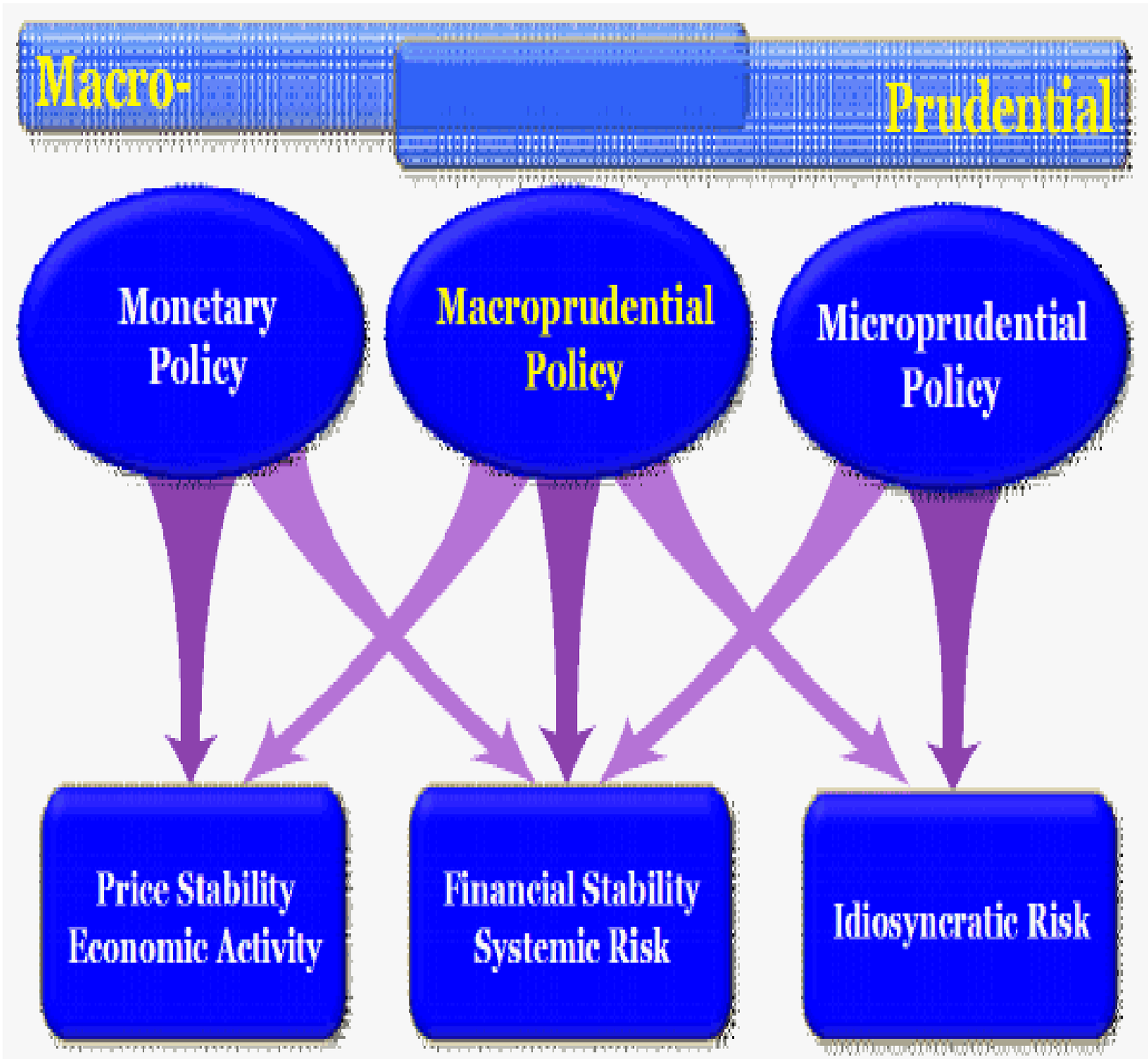
Finally, a very important function of branches is the supply of empty aluminum boxes to Deposit Money Banks (DMBs) for deposits and retrieval of the boxes.

They are also responsible for the movement of cash to and from the airports and inter CBN branch movements across the states.

Micro and Macroprudential Regulation

The traditional microprudential regulation is aimed at safeguarding the safety and soundness of individual financial institutions, while macroprudential regulation focuses on the welfare of the entire financial system. Under the microprudential perspective, risk is taken as exogenous and any shock triggering financial crisis does not originate from the behaviour of the system rather it can be traced to the behaviour of the individual institutions. It does not address the issues of the common exposures of individual financial institutions and markets and their interconnectedness, which are the domain of macroprudential regulation.

The Central Bank of Nigeria currently conducts macroprudential regulation to ensure the safety and soundness of the entire financial system.


Macro-
Prudential
Monetary Policy
Macroprudential Policy
Microprudential Policy
Price Stability
Economic Activity
Financial Stability
Systemic Risk
Idiosyncratic Risk

About the Series

"At a Glance" is part of the Central Bank of Nigeria's literacy series, designed to enlighten users with brief descriptions of basic monetary policy concepts.

The publication presents in a simplified pictorial form, monetary policy concepts in a manner that can be easily understood by users. The pictorial animations make for a more reader friendly presentation. The content will be highly beneficial to all who have a desire to learn the basic concepts of monetary policy, fiscal policy, central banking, financial policy and other related concepts. The book is readily available in libraries across the nation and will be updated as often as required. Enjoy the experience of a well-researched and packaged literacy material.